



8 UNITED STATES DISTRICT COURT
9 SOUTHERN DISTRICT OF CALIFORNIA

10 January 2004 Grand Jury

11 UNITED STATES OF AMERICA,

12 Plaintiff,

13 v.

14 RONALD SAATHOFF (1),

15 CATHY LEXIN (2),

16 TERESA WEBSTER (3),

17 LAWRENCE GRISSOM (4),

18 LORAINÉ CHAPIN (5),

19 Defendants.

Criminal Case No. 06CR0043-BEN

INDICTMENT

Title 18, U.S.C., Sec. 371 -
Conspiracy to Commit Wire and

Mail Fraud; Title 18, U.S.C.,

Secs. 1343 and 1346 - Wire

Fraud; Title 18, U.S.C.,

Secs. 1341 and 1346 - Mail Fraud;

Title 18, U.S.C., Sec. 2 -

Aiding and Abetting

20 The grand jury charges:

21 INTRODUCTORY ALLEGATIONS

22 At all times relevant to this Indictment:

23 The San Diego City Employees' Retirement System

24 1. The San Diego City Employees' Retirement System (hereinafter
25 "SDCERS") administered the funds used to provide retirement, health
26 insurance, disability and death benefits to current, former, and
27 retired city employees and their beneficiaries. The City of San Diego
28 (hereinafter "the City") was SDCERS' plan sponsor. As the plan
sponsor, the City was responsible for providing SDCERS with sufficient

JBO:nlv(2):San Diego
1/6/06

1 funds to pay for the retirement, health insurance, disability, and
2 death benefits to current, former, and retired city employees and
3 their beneficiaries.

4 2. With the assistance of an outside actuary, SDCERS determined
5 how much the City needed to pay each year to ensure that SDCERS had
6 sufficient funds to pay for the retirement, health insurance,
7 disability, and death benefits of the City's current, former, and
8 retired employees. The outside actuary also calculated SDCERS'
9 funding ratio on an annual basis. SDCERS' funding ratio was the ratio
10 between its assets and liabilities. A funding ratio of less than 100%
11 meant that SDCERS did not have sufficient assets to cover its
12 liabilities.

13 3. Until its reorganization in April 2005, a Board of
14 Administration (hereinafter "SDCERS Board") with 13 trustees governed
15 the administration of SDCERS' funds. The SDCERS Board included four
16 trustees appointed by the City Council, three city officials serving
17 as ex-officio trustees, one trustee elected by city firefighters, one
18 trustee elected by city police officers, three trustees elected by
19 city general employees, and one trustee elected by retired city
20 employees. The SDCERS Board had to approve by majority vote any city
21 proposal that would change the City's contribution requirements to
22 SDCERS.

23 4. Each trustee of the SDCERS Board had a fiduciary duty to the
24 Board and public. The primary fiduciary duty of the SDCERS Board was
25 to ensure that SDCERS had sufficient funds to pay for the retirement,
26 health insurance, disability, and death benefits of the City's
27 current, former, and retired employees. This fiduciary duty required
28 each SDCERS Board Trustee to disclose all material information to

1 their fellow SDCERS Board Trustees, including all information about
2 proposals that could affect the funding of SDCERS and all information
3 about whether an SDCERS Board decision could impact the financial
4 interests of an SDCERS Board Trustee.

5 5. Consistent with this fiduciary duty, the SDCERS Board
6 enacted its "Rules of the Retirement Board of Administration."
7 According to these Rules, each SDCERS Board Trustee had a fiduciary
8 duty to "avoid any activity which may be interpreted as a conflict of
9 interest," to "conduct all SDCERS business responsibilities in a fair
10 manner and be honest in all business negotiations," and to
11 "communicate to an appropriate Board or staff member information on
12 actions that may be violations of the law, [the Rules of the
13 Retirement Board of Administration], or actions which may be conflicts
14 of interest." The Rules of the Retirement Board of Administration
15 also prohibited each SDCERS Board Trustee from "directly or indirectly
16 seek[ing] or accept[ing] gifts, money or property that would influence
17 or appear to influence the conduct of his or her duties" and from
18 "knowingly engag[ing] in any serial, rotating, or seriatim meeting
19 through which a quorum of the Board becomes involved in the
20 acquisition of information or deliberation of any issue, unless the
21 notice and public access provisions of the open meeting laws are
22 satisfied."

23 6. Defendant RONALD SAATHOFF (hereinafter "defendant SAATHOFF")
24 was an SDCERS Board Trustee from the 1980s until 2005 as the
25 firefighters' representative, and was subject to the fiduciary duties
26 described above. Defendant SAATHOFF also was president of Local 145,
27 the firefighters' labor union, and was the lead negotiator for Local
28 145 during the 2002 labor negotiations with the City.

1 7. Defendant CATHY LEXIN (hereinafter "defendant LEXIN") was
2 an ex-officio SDCERS Board Trustee from 2001 until 2004, and was
3 subject to the fiduciary duties described above. Defendant LEXIN also
4 was the City's Human Resources Director, and was the City's lead labor
5 negotiator with Local 145 and defendant SAATHOFF during the 2002 labor
6 negotiations.

7 8. Defendant TERESA WEBSTER (hereinafter "defendant WEBSTER")
8 was an ex-officio SDCERS Board Trustee from 1995 until 2005, and was
9 subject to the fiduciary duties described above. Defendant WEBSTER
10 also was the City's Assistant Auditor and Comptroller, and later
11 became the City's acting Auditor and Comptroller.

12 9. The Administration Division of SDCERS managed the daily
13 affairs of SDCERS and directly interacted with the SDCERS Board.
14 Defendant LAWRENCE GRISSOM (hereinafter "defendant GRISSOM") was the
15 Administrator of SDCERS and in charge of its Administration Division
16 from 1987 until 2005. According to the Rules of the Retirement Board
17 of Administration, defendant GRISSOM was to "be solely responsible to
18 the Board." As the Administrator of SDCERS, defendant GRISSOM had the
19 duty to keep the SDCERS Board fully informed of all material
20 information, including information about proposals that could affect
21 the funding of SDCERS and information about whether an SDCERS Board
22 decision could impact the financial interests of an SDCERS Board
23 Trustee.

24 10. The Legal Services Division of SDCERS had the duty to
25 provide legal advice and assistance to the SDCERS Board. Defendant
26 LORAIN CHAPIN (hereinafter "defendant CHAPIN") was the General
27 Counsel of SDCERS and in charge of its Legal Services Division from
28 1997 until 2006. As the General Counsel of SDCERS, defendant CHAPIN

1 had the duty to keep the SDCERS Board fully informed of all material
2 information, including information about (a) proposals that could
3 affect the funding of SDCERS, (b) SDCERS Board decisions that could
4 impact the financial interests of an SDCERS Board Trustee, (c) whether
5 SDCERS Board Trustees and staff were complying with state and federal
6 laws, and (d) whether an SDCERS Board Trustee had a conflict of
7 interest.

8 Manager's Proposals 1 and 2, and the 2002 Labor Negotiations

9 11. In 1996, the City and the SDCERS Board entered into an
10 agreement called "Manager's Proposal 1" (hereinafter "MP1"). Under
11 MP1, the SDCERS Board agreed to permit the City to pay less than the
12 actuarially recommended amount of money necessary to ensure a funding
13 ratio of 100%. If the funding ratio fell below 82.3%, then a
14 "trigger" would be hit, and the City would be required to pay to
15 SDCERS an imminent multi-million dollar balloon payment. Under one
16 interpretation of MP1, the City would have been required to restore
17 the funding ratio to 82.3%, requiring the City to pay approximately
18 \$25 million for each percentage point that the funding ratio fell
19 below 82.3%. If the funding ratio fell below 78%, the City would have
20 faced a balloon payment of more than \$100 million.

21 12. In 2002, the City was scheduled to negotiate city employee
22 benefits with four labor unions: Local 145 (the firefighters' union),
23 the Police Officers' Association, Local 127 (blue collar city
24 employees), and the Municipal Employees Association (white collar city
25 employees). The blue collar city employees and white collar city
26 employees were commonly called the "general members." These labor
27 negotiations were commonly called "meet and confer." The four labor
28 unions wanted increased retirement benefits. The general members'

1 labor negotiators wanted the City to increase the general members'
2 retirement multiplier from 2.25% to 2.5%. This increase from 2.25%
3 to 2.5% would have raised the yearly retirement for defendants LEXIN,
4 WEBSTER, GRISSOM, and CHAPIN by thousands of dollars each year.

5 13. An issue in the Local 145 negotiations was whether the
6 firefighters would receive certain benefits, including whether
7 defendant SAATHOFF would receive the "presidential leave retirement
8 benefit." The presidential leave retirement benefit would permit
9 defendant SAATHOFF to base his retirement calculation on the
10 combination of his fire captain salary and his union president salary.
11 Without the presidential leave retirement benefit, defendant
12 SAATHOFF's retirement benefit would have been based solely on his fire
13 captain's salary. With the presidential leave retirement benefit,
14 defendant SAATHOFF's retirement would have increased by more than
15 \$25,000 per year.

16 14. In 2002, the City and some of the labor unions reached
17 tentative labor agreements to grant numerous retirement benefit
18 increases to some of the labor unions, including increasing the
19 general members' retirement benefit multiplier from 2.25% to 2.5% and
20 giving defendant SAATHOFF the presidential leave retirement benefit.
21 If enacted, these increased benefits would have raised the retirement
22 benefits for defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN.
23 The tentative increased retirement benefits were made "contingent" on
24 the SDCERS Board agreeing to modify MP1 so the City would avoid making
25 the imminent required multi-million dollar balloon payment if SDCERS'
26 funding ratio fell below 82.3%. If the SDCERS Board did not agree to
27 modify MP1, then the City would not be required to implement the
28 increased retirement benefits, including the 2.25% to 2.5% increase

1 and the presidential leave retirement benefit. If MP1 had remained
2 unchanged, defendant SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN
3 would have lost thousands of dollars each year in increased retirement
4 benefits. The proposal to modify MP1 and to make increased retirement
5 benefits contingent upon that modification became known as "Manager's
6 Proposal 2" (hereinafter "MP2").

7 15. In 2002, the City presented the SDCERS Board with multiple
8 versions of MP2, each of which would have modified MP1's trigger so
9 the City would only have paid the "full actuarial rate" (estimated at
10 a total of between \$25 and \$40 million) phased in over a series of
11 years if the funding ratio fell below the trigger, rather than the
12 imminent multi-million dollar balloon payment that could have exceeded
13 \$100 million if MP1 remained unmodified. In these versions of MP2,
14 the City also proposed lowering the MP1 trigger from 82.3% to 75%.

15 16. On or about Friday, June 21, 2002, the SDCERS Board met and
16 reviewed a version of MP2. Defendant GRISSOM told the SDCERS Board
17 that the recently negotiated retirement benefits were contingent upon
18 the SDCERS Board agreeing to adopt MP2. At this meeting, the City
19 Manager's Office proposed reducing the MP1 trigger from 82.3% to 75%.
20 At this meeting, defendant SAATHOFF reviewed the text of MP1 and
21 stated that MP1 "could be very easily interpreted" to require the City
22 to pay SDCERS the funds necessary to restore SDCERS' funding ratio to
23 82.3% if the funding ratio fell below 82.3%. Under this
24 interpretation of MP1, the City would be required to make an imminent
25 balloon payment, possibly exceeding \$100 million, if the trigger were
26 hit. After extensive discussion, the SDCERS Board did not reach a
27 decision on the City's proposal, and agreed to revisit the issue in
28 July 2002.

1 17. On or about Monday, June 24, 2002, defendant SAATHOFF met
2 with defendant GRISSOM for several hours and discussed the status of
3 his presidential leave retirement benefit. After the meeting,
4 defendant GRISSOM sent an e-mail to defendant LEXIN, and asked about
5 the status of the presidential leave retirement benefit. In response,
6 defendant LEXIN sent an e-mail to defendant GRISSOM: "we agreed to
7 'presidential leave' subject to attorneys working out the bugs, Ron
8 knows (as recently as discussions today) that the attorneys and
9 auditors are working with Dan on language . . . not yet in place. .
10 . . TELL RON TO COOL HIS JETS."

11 18. On or about July 1, 2002, defendant LEXIN drafted a
12 memorandum for the SDCERS Board about MP2 which she shared with
13 defendants WEBSTER and GRISSOM, and others. The memorandum, written
14 in the name of a Deputy City Manager, stated that the recently
15 negotiated retirement benefits were "contingent" upon the SDCERS
16 Board's modification of MP1 and its trigger. After receiving edits
17 and suggestions from defendants WEBSTER and GRISSOM, and others,
18 defendant LEXIN caused the memorandum to be sent by e-mail to the
19 SDCERS Board on or about July 8, 2002.

20 19. On or about July 9, 2002, defendant LEXIN briefed the City
21 Council in a closed session meeting. Defendant LEXIN informed the
22 City Council that the SDCERS Board might not adopt MP2 with a 75%
23 trigger. She also informed the City Council that, according to
24 defendant GRISSOM, an SDCERS Board Trustee would be making a motion
25 on July 11, 2002, to maintain the trigger at 82.3%, but "phase-in" the
26 "full actuarial rates" over a series of years. Under the 82.3%
27 "phase-in" proposal, "the practical impact on the City would be no
28 different than the previously authorized" 75% MP2 proposal. Based on

1 defendant LEXIN's recommendation, the City Council agreed to accept
2 the 82.3% "phase-in" MP2 proposal, but only as a "backup" if the
3 SDCERS Board refused to adopt the 75% MP2.

4 20. On or about July 11, 2002, the SDCERS Board met again to
5 consider MP2. Defendant GRISSOM reminded the SDCERS Board that the
6 recently negotiated benefit enhancements were contingent on the SDCERS
7 Board agreeing to modify MP1. At the meeting, the City Manager's
8 Office continued to propose a version of MP2 which would reduce the
9 trigger from 82.3% to 75%. After extensive discussion about the 75%
10 MP2 proposal, defendant SAATHOFF made a motion to "amend" the City's
11 MP2 proposal (hereinafter "SAATHOFF's MP2 proposal"). Under defendant
12 SAATHOFF's MP2 proposal, the 82.3% trigger would remain in place.
13 However, if the funding ratio fell below 82.3%, the City's balloon
14 payment would be phased in over a series of years, and would be
15 limited to the "full actuarial rate," which was far less than the over
16 \$100 million payment that could have been required if MP1 remained
17 unchanged. Defendant SAATHOFF's motion to amend MP2 was the motion
18 that defendant LEXIN had described during the July 9, 2002 City
19 Council closed session meeting. After limited discussion, the SDCERS
20 Board voted 8-2, with one abstention and two members absent, to
21 approve defendant SAATHOFF's MP2 proposal, subject to further review
22 by SDCERS' outside fiduciary counsel and actuary.

23 21. Shortly after the July 11, 2002 vote, defendants LEXIN,
24 WEBSTER, GRISSOM, and CHAPIN, and others, took the steps to create the
25 legislation and other documents necessary to implement defendant
26 SAATHOFF's MP2 proposal and the contingent retirement benefits
27 negotiated in 2002, including defendant SAATHOFF's presidential leave
28 retirement benefit, which later became Resolution 297212.

1 22. On or about October 21, 2002, the City Council adopted
2 Resolution 297212 on its consent agenda without public comment.
3 Resolution 297212 gave defendant SAATHOFF the presidential leave
4 retirement benefit.

5 23. On or about November 15, 2002, the SDCERS Board formally
6 approved defendant SAATHOFF's MP2 proposal by a 10-2 vote. During the
7 meeting, defendant SAATHOFF stated that his July 11, 2002 MP2 proposal
8 was an "off-the-seat-of-the-pants" motion.

9 24. On or about November 18, 2002, the City Council heard public
10 comment in favor of and against the ordinances necessary to put into
11 effect defendant SAATHOFF's MP2 proposal, as well as the increased
12 retirement benefits that were contingent on the SDCERS Board adopting
13 the same. After hearing the arguments of defendants SAATHOFF and LEXIN,
14 and others, the City Council approved the ordinances necessary to
15 implement the retirement benefits contingent on defendant SAATHOFF's
16 MP2 proposal.

17 Count 1

18 18 U.S.C. § 371

19 The Conspiracy

20 25. The allegations set forth in paragraphs 1 through 24 above
21 are realleged as if fully set forth herein.

22 26. Beginning in or before January 2001, and continuing up to
23 and including January 6, 2006, within the Southern District of
24 California, and elsewhere, defendants SAATHOFF, LEXIN, WEBSTER,
25 GRISSOM, and CHAPIN did knowingly conspire with each other and others
26 known and unknown to the grand jury to commit offenses against the
27 United States, that is, honest services mail and wire fraud, by
28 conspiring and agreeing to devise a material scheme and artifice to

1 defraud and to deprive the SDCERS Board Trustees, members of SDCERS,
2 and the citizens of the City of San Diego of their intangible right
3 of honest services of their public officials to be performed free from
4 corruption, fraud, undue influence, conflict of interest, and deceit,
5 and, in executing said scheme, deposited and caused to be deposited
6 matters and things to be sent and delivered by private and commercial
7 interstate carriers, and caused matters and things to be delivered by
8 the United States Postal Service and private and commercial interstate
9 carriers according to the direction thereon, and caused writings,
10 signs, signals, and sounds to be transmitted by means of wire in
11 interstate commerce; in violation of Title 18, United States Code,
12 Sections 1341, 1343, and 1346.

13 Manners And Means

14 27. In furtherance of this conspiracy, and to effect the objects
15 thereof, the defendants utilized the following manners and means,
16 among others:

17 a. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and
18 CHAPIN, and others, fraudulently devised a plan to modify MP1 and its
19 trigger in sufficient time so the City would avoid making the imminent
20 multi-million dollar balloon payment to SDCERS that MP1 required.

21 b. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and
22 CHAPIN, and others, fraudulently agreed to obtain the presidential
23 leave retirement benefit for defendant SAATHOFF in exchange for his
24 support of a proposal to modify MP1 so the City would avoid the
25 imminent multi-million dollar balloon payment that it owed SDCERS
26 under MP1.

27 c. Defendants SAATHOFF, LEXIN, and WEBSTER, and others,
28 negotiated and agreed to accept increased retirement benefits,

1 including defendant SAATHOFF's requested presidential leave retirement
2 benefit and the increase in the retirement multiplier from 2.25% to
3 2.5% for general members, in exchange for their support of a proposal
4 to modify MP1 so the City would avoid the multi-million dollar balloon
5 payment that it owed SDCERS under MP1.

6 d. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and
7 CHAPIN, and others, fraudulently concealed material information about
8 the increased retirement benefits, including defendant SAATHOFF's
9 presidential leave retirement benefit, from SDCERS Board Trustees, so
10 that the other SDCERS Board Trustees would vote to approve the
11 modification of MP1, which would allow the City to avoid the imminent
12 multi-million dollar balloon payment that it owed SDCERS, would allow
13 the defendants and others to receive increased retirement benefits,
14 including defendant SAATHOFF's presidential leave retirement benefit,
15 and would allow defendants LEXIN, WEBSTER, GRISSOM, and CHAPIN to
16 maintain their positions with the City and SDCERS.

17 e. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and
18 CHAPIN, and others, fraudulently concealed material information
19 concerning MP2 and other proposals from SDCERS Board Trustees, so that
20 the other SDCERS Board Trustees would vote to approve the modification
21 of MP1, which would allow the City to avoid the imminent multi-million
22 dollar balloon payment that it owed SDCERS, would allow the defendants
23 and others to receive increased retirement benefits, including
24 defendant SAATHOFF's presidential leave retirement benefit, and would
25 allow defendants LEXIN, WEBSTER, GRISSOM, and CHAPIN to maintain their
26 positions with the City and SDCERS.

27 f. Defendants SAATHOFF, LEXIN, and GRISSOM, and others,
28 fraudulently concealed from the SDCERS Board a prearranged plan for

1 defendant SAATHOFF to submit his MP2 proposal, which, if approved,
2 guaranteed defendant SAATHOFF his presidential leave retirement
3 benefit.

4 g. Defendants SAATHOFF, LEXIN, and WEBSTER, and others,
5 fraudulently voted in favor of defendant SAATHOFF's MP2 proposal, and
6 by concealing material information from the other SDCERS Board
7 Trustees, defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN
8 deceived and fraudulently induced the other SDCERS Board Trustees to
9 vote in favor of defendant SAATHOFF's MP2 proposal, which would allow
10 the City to avoid the imminent multi-million dollar balloon payment
11 that it owed SDCERS, would allow the defendants and others to receive
12 increased retirement benefits, including defendant SAATHOFF's
13 presidential leave retirement benefit, and would allow defendants
14 LEXIN, WEBSTER, GRISSOM, and CHAPIN to maintain their positions with
15 the City and SDCERS.

16 h. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and
17 CHAPIN, and others, drafted and assisted in the drafting of
18 legislation implementing defendant SAATHOFF's MP2 proposal and the
19 contingent retirement benefits negotiated in 2002, knowing that
20 defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN, and others
21 had concealed material information from the SDCERS Board Trustees,
22 including the nature and existence of the presidential leave
23 retirement benefit.

24 i. Defendants SAATHOFF, GRISSOM, and CHAPIN, and others,
25 fraudulently concealed from SDCERS Board Trustees material information
26 concerning defendant SAATHOFF's purchase of service credits that
27 enhanced defendant SAATHOFF's retirement benefits.

28

1 j. By deceiving the SDCERS Board Trustees and fraudulently
2 concealing material information from SDCERS Board Trustees, defendants
3 SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN caused significant harm
4 to the financial integrity of SDCERS.

5 OVERT ACTS

6 28. In furtherance of said conspiracy and to effect and
7 accomplish the objects thereof, the following overt acts, among
8 others, were committed within the Southern District of California, and
9 elsewhere:

- 10 a. On or about January 8, 2001, defendant SAATHOFF sent
11 a letter to a city employee requesting that he receive
12 the presidential leave retirement benefit "consistent
13 with the current procedure followed by the P.O.A. and
14 the M.E.A."
- 15 b. On or about September 18, 2001, defendant SAATHOFF
16 told a city employee that, as part of the presidential
17 leave retirement benefit, he wished to combine his
18 city salary with his union president salary to
19 increase his high one year retirement calculation from
20 \$80,881.16 to \$114,964.66.
- 21 c. On or about October 11, 2001, defendant WEBSTER sent
22 an e-mail to defendant LEXIN entitled "EEEEK,"
23 expressing defendant WEBSTER's concerns about SDCERS'
24 funding ratio and decreasing earnings.
- 25 d. On or about November 5, 2001, defendant WEBSTER sent
26 an e-mail to a city labor negotiator discussing "Ron's
27 Plan B" and that city labor negotiators should "keep
28 the bargaining chip in your pocket."

- 1 e. On or about November 13, 2001, defendant LEXIN wrote
2 a memorandum recommending that the presidential leave
3 retirement benefit be discussed in the context of the
4 2002 labor negotiations with Local 145 and the other
5 labor unions.
- 6 f. On or about January 3, 2002, defendant WEBSTER sent an
7 e-mail to defendant LEXIN, and others, stating that
8 the SDCERS fund earnings from November 2000 until
9 November 2001 had decreased by 85%, and that "these
10 are SERIOUS consequences and needs attention."
- 11 g. On or about February 27, 2002, defendant WEBSTER wrote
12 an e-mail to defendant LEXIN, and others, stating: "OH
13 BOY the CERS earnings for Jan is negative
14 (\$1.7) we're moving in the wrong direction!"
- 15 h. On or about February 28, 2002, defendants LEXIN and
16 WEBSTER, and others, discussed via e-mail a plan "to
17 use Ron Saathoff to get" the SDCERS Board's
18 "attention."
- 19 i. On or about March 7, 2002, defendant GRISSOM sent an
20 e-mail to defendant WEBSTER stating that a reporter
21 had inquired about the City underfunding SDCERS, and
22 asked defendant WEBSTER "is there any 'party line' for
23 me to communicate?"
- 24 j. On or about March 13, 2002, defendant WEBSTER sent an
25 e-mail to defendants LEXIN and GRISSOM, and others,
26 about the SDCERS funding ratio, and stated that: "This
27 is a big and serious problem. . . . especially since
28 the \$20m+ trigger is getting closer."

- 1 k. On or about April 15, 2002, defendant GRISSOM sent an
2 e-mail to defendant WEBSTER estimating that the
3 funding ratio would fall below the 82.3% MP1 trigger,
4 and asked defendant WEBSTER to "[p]lease treat this as
5 confidential for the moment haven't shared
6 with any of the other Board members - yet."
- 7 l. On or about April 17, 2002, defendant WEBSTER sent an
8 e-mail to defendant LEXIN, and others, stating that if
9 modifying the MP1 trigger were "tied to benefit
10 increases I think it would pass."
- 11 m. On or about May 21, 2002, defendant WEBSTER sent an e-
12 mail to a city employee stating: "The Local 145 write
13 up you sent out did not state that their increased
14 offset was contingent on the Board laxing the trigger.
15 I thought ALL retirement improvements
16 (including the preside[n]tial leave(?)) were
17 contingent on the trigger. . . . especially need Ron
18 behind releasing the trigger since he runs the show at
19 CERS."
- 20 n. On or about June 14, 2002, defendant LEXIN wrote a
21 memorandum stating that the retirement benefits
22 negotiated during the 2002 labor negotiations were
23 contingent upon the SDCERS Board approving a
24 modification of MP1.
- 25 o. On or about June 21, 2002, defendant SAATHOFF told the
26 SDCERS Board that MP1 "could be very easily
27 interpreted" to require the City to pay SDCERS the
28

1 funds necessary to restore SDCERS' funding ratio to
2 82.3% if funding ratio fell below 82.3%.

3 p. On or about June 25, 2002, defendant LEXIN sent an e-
4 mail to an SDCERS Board Trustee who did not attend the
5 June 21, 2002 SDCERS Board meeting, stating that
6 defendant LEXIN and others "REALLY do need you!" at
7 the July 11, 2002 SDCERS Board meeting to vote on MP2.

8 q. On or about July 1, 2002, defendant LEXIN sent via e-
9 mail a draft memorandum to defendant GRISSOM, which
10 contained proposed answers to the questions of an
11 SDCERS Board Trustee about MP2.

12 r. On or about July 2, 2002, defendant WEBSTER reviewed
13 defendant LEXIN's July 1, 2002 draft memorandum, and
14 sent an e-mail stating: "FYI Regarding cathy's letter
15 my biggest suggestion to her is to eliminate any
16 reference to fitch and rating agencies in #6. This
17 letter will be seen by press and the city does not
18 need to telegraph its pension problems to the rating
19 agencies who don't research the topic to any great
20 level now."

21 s. On or about July 8, 2002, defendant LEXIN wrote a
22 memorandum urging the City Council to preapprove a
23 motion to amend MP2 that an SDCERS Board Trustee would
24 be making on July 11, 2002.

25 t. On or about July 11, 2002, defendant SAATHOFF made a
26 motion before the SDCERS Board to amend the City's
27 version of MP2.
28

- 1 u. On or about July 11, 2002, defendants SAATHOFF, LEXIN,
2 and WEBSTER, and others, voted in favor of defendant
3 SAATHOFF's MP2 proposal, and defendants SAATHOFF,
4 LEXIN, WEBSTER, GRISSOM, and CHAPIN did not disclose
5 defendant SAATHOFF's presidential leave retirement
6 benefit to the other SDCERS Board Trustees.
- 7 v. On or about July 18, 2002, defendants CHAPIN and
8 GRISSOM, and others, met to discuss how to implement
9 benefits conveyed under MP2, including the
10 presidential leave retirement benefit.
- 11 w. On or about August 26, 2002, defendants LEXIN, CHAPIN,
12 and GRISSOM, and others, met to discuss how to
13 implement benefits conveyed under MP2, including the
14 presidential leave retirement benefit.
- 15 x. On or about September 6, 2002, defendant CHAPIN sent
16 an e-mail to defendants LEXIN, WEBSTER, and GRISSOM,
17 and others, stating: "The Board has not reviewed the
18 Presidential Leave issue and does not have to."
- 19 y. On or about November 5, 2002, defendant WEBSTER sent
20 an e-mail to defendant LEXIN suggesting that they try
21 to convince the SDCERS Board to reduce the MP1 82.3%
22 trigger "BEFORE the actuary report comes out with the
23 ratio news."
- 24 z. On or about November 15, 2002, defendants SAATHOFF and
25 WEBSTER, and others, voted in favor of defendant
26 SAATHOFF's MP2 proposal, and defendants SAATHOFF,
27 WEBSTER, GRISSOM, CHAPIN, and others, did not disclose
28

1 defendant SAATHOFF's presidential leave retirement
2 benefit to the other SDCERS Board Trustees.

3 aa. On or about November 18, 2002, defendants SAATHOFF and
4 LEXIN, and others defended MP2 before the City
5 Council.

6 bb. On or about December 6, 2002, defendant LEXIN, and
7 others, drafted a letter that defended MP2 against
8 allegations made publicly that MP2 was "corrupt."

9 cc. On or about December 20, 2002, defendant SAATHOFF told
10 the SDCERS Board that under MP1, the City would not
11 have been required to pay SDCERS the funds necessary
12 to restore SDCERS' funding ratio to 82.3% if the
13 funding ratio fell below 82.3%.

14 dd. On or about August 15, 2003, defendant SAATHOFF,
15 during a SDCERS Board meeting, falsely denied that he
16 had received increased benefits as a result of MP2.

17 All in violation of Title 18, United States Code, Section 371.

18 Counts 2 - 5

19 18 U.S.C. §§ 1343, 1346, and 2

20 Honest Services Wire Fraud

21 29. The allegations set forth in paragraphs 1 through 24 above
22 are realleged as if fully set forth herein.

23 30. Beginning in or before January 2001, and continuing up to
24 and including January 6, 2006, within the Southern District of
25 California, and elsewhere, defendants SAATHOFF, LEXIN, WEBSTER,
26 GRISSOM, and CHAPIN did knowingly devise and intend to devise a
27 material scheme and artifice to defraud, to wit, to act with the
28 intent to deprive the SDCERS Board Trustees, members of SDCERS, and

1 the citizens of the City of San Diego of their intangible right of
2 honest services of their public officials to be performed free from
3 corruption, fraud, undue influence, conflict of interest, and deceit.

4 The Scheme to Defraud

5 31. It was part of the scheme to defraud that defendants
6 SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN, and others, did, among
7 other things, the following:

8 a. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and
9 CHAPIN, and others, fraudulently devised a plan to modify MP1 and its
10 trigger in sufficient time so the City would avoid making the imminent
11 multi-million dollar balloon payment to SDCERS that MP1 required.

12 b. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and
13 CHAPIN, and others, fraudulently agreed to obtain the presidential
14 leave retirement benefit for defendant SAATHOFF in exchange for his
15 support of a proposal to modify MP1 so the City would avoid the
16 imminent multi-million dollar balloon payment that it owed SDCERS
17 under MP1.

18 c. Defendants SAATHOFF, LEXIN, and WEBSTER, and others,
19 negotiated and agreed to accept increased retirement benefits,
20 including defendant SAATHOFF's requested presidential leave retirement
21 benefit and the increase in the retirement multiplier from 2.25% to
22 2.5% for general members, in exchange for their support of a proposal
23 to modify MP1 so the City would avoid the multi-million dollar balloon
24 payment that it owed SDCERS under MP1.

25 d. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and
26 CHAPIN, and others, fraudulently concealed material information about
27 the increased retirement benefits, including defendant SAATHOFF's
28 presidential leave retirement benefit, from SDCERS Board Trustees, so

1 that the other SDCERS Board Trustees would vote to approve the
2 modification of MP1, which would allow the City to avoid the imminent
3 multi-million dollar balloon payment that it owed SDCERS, would allow
4 the defendants and others to receive increased retirement benefits,
5 including defendant SAATHOFF's presidential leave retirement benefit,
6 and would allow defendants LEXIN, WEBSTER, GRISSOM, and CHAPIN to
7 maintain their positions with the City and SDCERS.

8 e. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and
9 CHAPIN, and others, fraudulently concealed material information
10 concerning MP2 and other proposals from SDCERS Board Trustees, so that
11 the other SDCERS Board Trustees would vote to approve the modification
12 of MP1, which would allow the City to avoid the imminent multi-million
13 dollar balloon payment that it owed SDCERS, would allow the defendants
14 and others to receive increased retirement benefits, including
15 defendant SAATHOFF's presidential leave retirement benefit, and would
16 allow defendants LEXIN, WEBSTER, GRISSOM, and CHAPIN to maintain their
17 positions with the City and SDCERS.

18 f. Defendants SAATHOFF, LEXIN, and GRISSOM, and others,
19 fraudulently concealed from the SDCERS Board a prearranged plan for
20 defendant SAATHOFF to submit his MP2 proposal, which, if approved,
21 guaranteed defendant SAATHOFF his presidential leave retirement
22 benefit.

23 g. Defendants SAATHOFF, LEXIN, and WEBSTER, and others,
24 fraudulently voted in favor of defendant SAATHOFF's MP2 proposal, and
25 by concealing material information from the other SDCERS Board
26 Trustees, defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN
27 deceived and fraudulently induced the other SDCERS Board Trustees to
28 vote in favor of defendant SAATHOFF's MP2 proposal, which would allow

1 the City to avoid the imminent multi-million dollar balloon payment
2 that it owed SDCERS, would allow the defendants and others to receive
3 increased retirement benefits, including defendant SAATHOFF's
4 presidential leave retirement benefit, and would allow defendants
5 LEXIN, WEBSTER, GRISSOM, and CHAPIN to maintain their positions with
6 the City and SDCERS.

7 h. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and
8 CHAPIN, and others, drafted and assisted in the drafting of
9 legislation implementing defendant SAATHOFF's MP2 proposal and the
10 contingent retirement benefits negotiated in 2002, knowing that
11 defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN, and others
12 had concealed material information from the SDCERS Board Trustees,
13 including the nature and existence of the presidential leave
14 retirement benefit.

15 i. Defendants SAATHOFF, GRISSOM, and CHAPIN, and others,
16 fraudulently concealed from SDCERS Board Trustees material information
17 concerning defendant SAATHOFF's purchase of service credits that
18 enhanced defendant SAATHOFF's retirement benefits.

19 j. By deceiving the SDCERS Board Trustees and fraudulently
20 concealing material information from SDCERS Board Trustees, defendants
21 SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN caused significant harm
22 to the financial integrity of SDCERS.

23 Execution Of The Scheme

24 32. On or about the dates set forth below, according to each
25 count, within the Southern District of California, and elsewhere,
26 defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN, for the
27 purpose of executing the aforesaid material scheme to defraud,
28 knowingly transmitted and caused to be transmitted by means of a wire

1 communication in interstate commerce, certain writings, signs,
2 signals, and sounds, that is, e-mails, as alleged below:

3	<u>COUNT</u>	<u>DATE</u>	<u>WIRE COMMUNICATION</u>
4	2	6/19/2002	E-mail entitled "Fwd: Report," sent from an e-mail account located in San Diego, California,
5			to an America Online e-mail account of an SDCERS Board Trustee, located in Dulles, Virginia
6	3	7/8/2002	E-mail entitled "City's Proposal re SDCERS,"
7			sent from an e-mail account located in San Diego, California, to an America Online e-mail
8			account of an SDCERS Board Trustee, located in Dulles, Virginia
9	4	7/15/2002	E-mail entitled "Re: He's Baaack!," sent by
10			defendant GRISSOM from an e-mail account located in San Diego, California, to an America Online
11			e-mail account of an SDCERS Board Trustee, located in Dulles, Virginia
12	5	10/4/2002	E-mail entitled "Resolution for Incumbent
13			Presidential Retirement Benefits," sent from an e-mail account located in San Diego, California,
14			to an America Online e-mail account of defendant SAATHOFF, located in Dulles, Virginia
15			

16 All in violation of Title 18, United States Code, Sections 1343, 1346
17 and 2.

18 Counts 6 - 20

19 18 U.S.C. §§ 1341, 1346, and 2

20 Honest Services Mail Fraud

21 33. The allegations set forth in paragraphs 1 through 24 above
22 are realleged as if fully set forth herein.

23 34. Beginning in or before January 2001, and continuing up to
24 and including January 6, 2006, within the Southern District of
25 California, and elsewhere, defendants SAATHOFF, LEXIN, WEBSTER,
26 GRISSOM, and CHAPIN did knowingly devise and intend to devise a
27 material scheme and artifice to defraud, to wit, to act with the
28 intent to deprive the SDCERS Board Trustees, members of SDCERS, and

1 the citizens of the City of San Diego of their intangible right of
2 honest services of their public officials to be performed free from
3 corruption, fraud, undue influence, conflict of interest, and deceit.

4 The Scheme to Defraud

5 35. It was part of the scheme to defraud that defendants
6 SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN, and others, did, among
7 other things, the following:

8 a. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and
9 CHAPIN, and others, fraudulently devised a plan to modify MP1 and its
10 trigger in sufficient time so the City would avoid making the
11 imminent multi-million dollar balloon payment to SDCERS that MP1
12 required.

13 b. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and
14 CHAPIN, and others, fraudulently agreed to obtain the presidential
15 leave retirement benefit for defendant SAATHOFF in exchange for his
16 support of a proposal to modify MP1 so the City would avoid the
17 imminent multi-million dollar balloon payment that it owed SDCERS
18 under MP1.

19 c. Defendants SAATHOFF, LEXIN, and WEBSTER, and others,
20 negotiated and agreed to accept increased retirement benefits,
21 including defendant SAATHOFF's requested presidential leave
22 retirement benefit and the increase in the retirement multiplier from
23 2.25% to 2.5% for general members, in exchange for their support of
24 a proposal to modify MP1 so the City would avoid the multi-million
25 dollar balloon payment that it owed SDCERS under MP1.

26 //

27 //

28 //

1 d. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and
2 CHAPIN, and others, fraudulently concealed material information about
3 the increased retirement benefits, including defendant SAATHOFF's
4 presidential leave retirement benefit, from SDCERS Board Trustees,
5 so that the other SDCERS Board Trustees would vote to approve the
6 modification of MP1, which would allow the City to avoid the imminent
7 multi-million dollar balloon payment that it owed SDCERS, would allow
8 the defendants and others to receive increased retirement benefits,
9 including defendant SAATHOFF's presidential leave retirement benefit,
10 and would allow defendants LEXIN, WEBSTER, GRISSOM, and CHAPIN to
11 maintain their positions with the City and SDCERS.

12 e. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and
13 CHAPIN, and others, fraudulently concealed material information
14 concerning MP2 and other proposals from SDCERS Board Trustees, so
15 that the other SDCERS Board Trustees would vote to approve the
16 modification of MP1, which would allow the City to avoid the imminent
17 multi-million dollar balloon payment that it owed SDCERS, would allow
18 the defendants and others to receive increased retirement benefits,
19 including defendant SAATHOFF's presidential leave retirement benefit,
20 and would allow defendants LEXIN, WEBSTER, GRISSOM, and CHAPIN to
21 maintain their positions with the City and SDCERS.

22 f. Defendants SAATHOFF, LEXIN, and GRISSOM, and others,
23 fraudulently concealed from the SDCERS Board a prearranged plan for
24 defendant SAATHOFF to submit his MP2 proposal, which, if approved,
25 guaranteed defendant SAATHOFF his presidential leave retirement
26 benefit.

27 //

28 //

1 g. Defendants SAATHOFF, LEXIN, and WEBSTER, and others,
2 fraudulently voted in favor of defendant SAATHOFF's MP2 proposal, and
3 by concealing material information from the other SDCERS Board
4 Trustees, defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN
5 deceived and fraudulently induced the other SDCERS Board Trustees to
6 vote in favor of defendant SAATHOFF's MP2 proposal, which would allow
7 the City to avoid the imminent multi-million dollar balloon payment
8 that it owed SDCERS, would allow the defendants and others to receive
9 increased retirement benefits, including defendant SAATHOFF's
10 presidential leave retirement benefit, and would allow defendants
11 LEXIN, WEBSTER, GRISSOM, and CHAPIN to maintain their positions with
12 the City and SDCERS.

13 h. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and
14 CHAPIN, and others, drafted and assisted in the drafting of
15 legislation implementing defendant SAATHOFF's MP2 proposal and the
16 contingent retirement benefits negotiated in 2002, knowing that
17 defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN, and others
18 had concealed material information from the SDCERS Board Trustees,
19 including the nature and existence of the presidential leave
20 retirement benefit.

21 i. Defendants SAATHOFF, GRISSOM, and CHAPIN, and others,
22 fraudulently concealed from SDCERS Board Trustees material
23 information concerning defendant SAATHOFF's purchase of service
24 credits that enhanced defendant SAATHOFF's retirement benefits.

25 j. By deceiving the SDCERS Board Trustees and
26 fraudulently concealing material information from SDCERS Board
27 Trustees, defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN
28 caused significant harm to the financial integrity of SDCERS.

Execution Of The Scheme

36. On or about the dates set forth below, according to each count, within the Southern District of California, and elsewhere, defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN, for the purpose of executing the aforesaid material scheme to defraud, knowingly deposited and caused to be deposited matters and things to be sent and delivered by private and commercial interstate carriers, and caused matters and things to be delivered by the United States Postal Service and private and commercial interstate carriers according to the direction thereon as alleged below:

COUNT	DEFENDANTS	DATE	MAIL MATTER
6	SAATHOFF LEXIN WEBSTER GRISSOM CHAPIN	6/13/2002	SDCERS Board Packet For June 21, 2002 SDCERS Board Meeting, Delivered to SDCERS Board Trustee via Adcom Express
7	SAATHOFF LEXIN WEBSTER GRISSOM CHAPIN	6/13/2002	SDCERS Board Packet For June 21, 2002 SDCERS Board Meeting, Delivered to SDCERS Board Trustee via Adcom Express
8	SAATHOFF LEXIN WEBSTER GRISSOM CHAPIN	6/13/2002	SDCERS Board Packet For June 21, 2002 SDCERS Board Meeting, Delivered to SDCERS Board Trustee via Adcom Express
9	SAATHOFF LEXIN WEBSTER GRISSOM CHAPIN	7/9/2002	SDCERS Board Packet For July 11, 2002 SDCERS Board Meeting, Delivered to SDCERS Board Trustee via Adcom Express
10	SAATHOFF LEXIN WEBSTER GRISSOM CHAPIN	7/9/2002	SDCERS Board Packet For July 11, 2002 SDCERS Board Meeting, Delivered to SDCERS Board Trustee via Adcom Express

COUNT	DEFENDANTS	DATE	MAIL MATTER
11	SAATHOFF LEXIN WEBSTER GRISSOM CHAPIN	7/9/2002	SDCERS Board Packet For July 11, 2002 SDCERS Board Meeting, Delivered to SDCERS Board Trustee via Adcom Express
12	SAATHOFF	8/12/2002	Check No. 013011081 For \$3,529.89, payable to San Deigo [sic] City Employees Ret Sys FBO Ronald L Saathoff, Delivered to SDCERS via United States Mail
13	SAATHOFF	8/12/2002	Check No. 013010714 For \$8,090.44, payable to San Deigo [sic] City Employees Ret Sys FBO Ronald L Saathoff, Delivered to SDCERS via United States Mail
14	SAATHOFF	8/29/2002	Check No. 78697 For \$1,736.71, payable to SDCERS PLAN, Delivered to SDCERS via United States Mail
15	SAATHOFF	9/13/2002	Check No. 2583879 For \$51,236.79, payable to City of San Diego For Plan to Plan Transfer FBO Ronald Saathoff, Delivered to SDCERS via United States Mail
16	SAATHOFF LEXIN WEBSTER GRISSOM CHAPIN	11/7/2002	SDCERS Board Packet For November 15, 2002 SDCERS Board Meeting, Delivered to SDCERS Board Trustee via Adcom Express
17	SAATHOFF LEXIN WEBSTER GRISSOM CHAPIN	11/7/2002	SDCERS Board Packet For November 15, 2002 SDCERS Board Meeting, Delivered to SDCERS Board Trustee via Adcom Express
18	SAATHOFF LEXIN WEBSTER GRISSOM CHAPIN	11/7/2002	SDCERS Board Packet For November 15, 2002 SDCERS Board Meeting, Delivered to SDCERS Board Trustee via Adcom Express
19	SAATHOFF LEXIN WEBSTER GRISSOM CHAPIN	11/7/2002	SDCERS Board Packet For November 15, 2002 SDCERS Board Meeting, Delivered to SDCERS Board Trustee via Adcom Express

COUNT	DEFENDANTS	DATE	MAIL MATTER
20	SAATHOFF LEXIN WEBSTER GRISSOM CHAPIN	11/7/2002	SDCERS Board Packet For November 15, 2002 SDCERS Board Meeting, Delivered to SDCERS Board Trustee via Adcom Express

All in violation of Title 18, United States Code, Sections 1341, 1346
and 2.

DATED: January 6, 2006.

A TRUE BILL:

Foreperson

CAROL C. LAM
United States Attorney

By: _____
G. MICHAEL STILL
Special Assistant U.S. Attorney

By: _____
JOHN B. OWENS
Assistant U.S. Attorney